

**ACCOUNTING 2020 RESOURCES**

**INVENTORY VALUATION AND INTERNAL CONTROL REVISION GUIDELINES**

**QUESTION 1**

* 1. **INVENTORY VALUATION**

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| 1.1.1 | **Calculate the closing stock value on hand on 30 June 2019 for:**1. **Towels (using the FIFO method)**

300 X 130 = 39 000 ✓✓ **(2 or nothing)**100 X 100 = 10 000✓✓ **(2 or nothing)** 49 000 🗹 **one part correct**1. **Blankets (using the weighted average method)**

94 500✓ + 534 000✓ – 4 140✓ + 29 476✓  450✓ + 2 500✓ – 18✓ **OR 653 836/2 932**  **223 X 1732**✓ **= R386 236**🗹 **one part correct** |

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| 1.1.2 | **Calculate the following for towels:**1. Cost of sales

110 000✓ + 389 000✓ – 49 000 🗹= 450 000 🗹 one part correct1. Stock turnover rate

 450 000🗹½✓ (110 000✓ + 49 000🗹 ) = 5,7 times🗹 **one part correct** |

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| **1.1.3** | **Michelle is complaining about the work load in managing the two items. She is considering closing one item. Which one will you recommend and provide one reason for your answer.** **Item:** Blankets✓**Reason:** * Too much stock on hand. 1 732 unsold units✓✓
* Stock turnover rate only 1,25 compared to 5.7 on towels
* Gross profit percentage on towels 54%, and blankets only 16%.
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**1.2.1 Choose the description from COLUMN B that best describes the stock valuation method in COLUMN A.**

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| **1.2.1** | C 🗸 |  |

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| **1.2.2** | A 🗸 |  |
| **1.2.3** | B 🗸 |  |

**1.2.2 Calculate the following on 30 June 2019:**

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| **1.2.2.1** | **Closing stock**65 🗸 x 2 900 = 188 500🗸 15 🗹 x 2 800🗸 = 42 000 🗹 operation one part correct 230 500🗹 operation one part correct |

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|  | **Cost of sales** see above138 000🗸 + 512 000🗸 + 26 000 🗸– 14 500🗸 – 230 500🗹 = 431 000🗹 operation one part correct |

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| **1.2.2.2** | **The owner suspects that generators had been stolen. Calculate the number of generators stolen.**60 + 190 – 1 mark  250 🗸– 5 🗸 – 80🗸– 162🗸 = 3 🗹 operation one part correct |

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|  | **Give TWO points of advice**Expected responses for 2 marks: 🗸🗸 🗸🗸 Award part-marks for incomplete answers* Count stock regularly/randomly and check against stock records
* Order smaller quantities, but more frequently
* Improve physical security e.g. controls at entrance/security cameras
* Claim on insurance policy
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| **1.2.2.3** | **Calculate the value of closing stock using the weighted-average cost method.**  138 000🗸 + 512 000🗸 + 26 000🗸 – 14 500🗸  60 🗸 + 190 🗸 – 5 🗸 4 marks 661 500  245 3 marks= 2700 x 80 🗸 = 216 000🗹 operation one part correct 7 marks |

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|  | **The owner, Mrs Westhuizen, thinks that changing to the weighted-average method will lessen her tax burden. She approaches you for advice. Provide TWO points of advice.**Any two valid points 🗸🗸 🗸🗸 Award part-marks for incomplete answers* It is true it will for a while reduce the tax liability as the gross profit using WAC is smaller/lower than when using FIFO but it is not permissible;
* It is unethical to manipulate stock valuation methods;
* To change would affect comparisons over financial years.
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**1.3**

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|  | **INVENTORY CALCULATIONS** |  |
| **1.3.1** | **What does FIFO stand for?** |  |
|  | First-in-First-out **✓** |

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| **1.3.2** | **Calculate the closing stock of shoes according to the weighted average method on 30 June 2019.** |  |
|  | = 745**🗹** x 400 = R298 000**🗹** Operation one part correct |

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| **1.3.3** | **Calculate the number of stolen items for footwear accessories.**  |  |
|  | 3 200**✓** – 1 700 **✓**– 1 020**✓**480 items were stolen **🗹** one part correct |

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|  | **Average stock holding period in days.** |  |
|  |  37 900 ) calculation= 203.4 days**🗹** one part correct |

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|  | **Should Mani Traders continue with buying and selling the accessories stock. Provide TWO points of advice. Quote figures to support your answer** |  |
|  | Yes /NO **✓****Advice ✓✓ ✓✓****Quote figures ✓ ✓*** 480 items stolen – should adopt a better internal control (division of duties, proper authorisation, safekeeping of asset)
* Average stock holding 203,4 days which means that it is taking too long to sell the stock.
* Do not buy and sell footwear accessories – stolen stock (480 items) or too long stock on hand (203,4 days)
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**QUESTION 2**

**2.1 MAKRO STORES**

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| **2.1.1** | **Calculate the value of closing stock on using the FIFO (first-in-first-out) method.**200 x R8 000 = R1 600 000🗸🗸160 ☑ x R11 560 🗸 = R1 849 600 ☑(360 – 200) R3 449 600☑ one part correct |

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| **2.1.2** | **Calculate the value of closing stock using the weighted average method.**WA value per unit = R8 640 000🗸 / 800🗸 = R10 800Value of closing stock = 360🗸 x R10 800 see above = R3 888 000☑ one part correct OR 8 640 000 / 800 x 360 = R3 888 000 |

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| **2.1.3** | **Which method of stock valuation would you advise the owner to use? Explain a reason for your answer.**Possible answers Decision🗸 Reason🗸🗸Specific identification / FIFO because TV sets are discrete units and it is easy to identify the cost price of each TV set.OR:Weighted average method because the gross profit will be higher or there is no need to track the cost price on each TV set. |

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| **2.2** | **Comment on the stock control of each item, quoting figures to support your comment. In each case, offer Naidoo advice for the future.**Each comment : one mark; quoting figures: one mark; advice: one mark

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| **Stock item** | **Comment**  | **Advice** |
| **Ekasi TV sets** | The stock is not selling well because new models are on the market. Too much stock on hand (360 units) compared to stock sales for the year (440 units) 🗸🗸 | Reduce the price to clear the stock and stock new (latest) models🗸 |
| **Smart Talk Cellphones** | The cellphones are selling well (2 250 sold) and the stock is relatively low (15 days). The control of stock is a problem(50 cellphones missing)🗸🗸 | Institute procedures to safeguard the stock e.g special cabinets with one person controlling the keys🗸 |
| **Pocket Radios** | The radios are not selling well (only 10 per month). 🗸🗸Stock holding is high (65 days). | Discontinue selling the radios. It is not worth it🗸 |

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| **2.3.1** | **Calculate the value of closing stock using the weighted average method on 28 February 2019.** (40 x 85) 11 280🗸 + 239 400🗸– 3 400🗸  150🗸 + 2 700🗸 – 40🗸  247 280 - (3 marks)  2 810 - (3 marks) 88 x 635🗸 = R55 880🗹 operation one part correct (6 marks) |

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|  | **Calculate the gross profit on 28 February 2019.**

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| Sales 2 165✓ x 130✓ **OR** 283 400 – 1 950 1 mark 1 mark  | 281 450🗹one part correct |
| Cost of sales (247 280🗹 – 55 880🗹)   | (191 400)🗹one part correct |
| Gross profit | 90 050🗹operation |

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| **2.3.2** | **The owner suspects that bags are missing.** **Calculate the number of missing bags**   150🗸 + 2 700🗸 – 40🗸 – 2 165🗹 – 635🗸 = 10🗹 operation one part correct  **Explain TWO control measures that can be used to prevent this from happening in the future.**Possible answers for two marks 🗸🗸 🗸🗸* Improve security – install CCTV cameras; train security staff; monitor exit points;
* Regular stock counts and compare it with the records;
* Staff rotation so that they must not work too long at the same place
* Division of duties to make sure that one person is not doing everything in the business.

Possible answers for one mark * Improve security/install CCTV;
* Regular stock counts
* Staff rotation
* Division of duties
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| **2.3.3** | **Mention TWO possible benefits to the business from the** **donations made to support needy learners.**Any TWO possible benefits 🗸🗸 🗸🗸* Increased or improved publicity/advertisement;
* Improved image (positive image – caring)
* Social responsibility to invest back in the community
* They can use it as a Tax reduction
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**2.4**

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| **2.4.1** | **Calculate the value of the closing stock on 28 February 2019 using the weighted-average method.** |  |  |
|  | R312 900🗸 + R1 375 000🗸 – R13 500🗸🗸 610🗸 + 2 400 🗸 - 20 🗸  |   |  |
|  |  |  |  |
|  | 1 674 400 (4 marks) 2 990 (3 marks) |  |  |
|  | (7 marks) |  |  |
|  | R560 X 420🗸 = R235 200☑ closing stock Operation one part correct |  |  |
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| **2.4.2** | **Calculate the average stock-holding period (in days) on** **28 February 2019.** |  |  |
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|  | ½ 🗸 ( 312 900🗸 + 235 200☑) x 365 1 439 200🗸 ☑ 1 |  |  |
|  |  See 2.2.1 ( 1 674 400 – 235 200) |  |  |
|  |  274 050 (3 marks) x 3651 439 200 1 |  |  |
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|  | 69,5 days☑  |  |  |
|  | Operation one part correct |  | **6** |
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| **2.4.3** | **Comment on the stock-holding period and explain how this would affect the business.** |  |  |
|  | **Comment** |  |  |
|  | Any relevant answer 🗸🗸 |  |  |
|  | Improved from 100 days (2018) to 69.5 days. Jackets are seasonal wear and 69.5 days is a relatively good period. |  |  |
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|  | **How this would affect the business.** |  |  |
|  | Any relevant answer🗸🗸 |  |  |
|  | Increase in sales volume thereby increasing profits made by the business.  |  |  |
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| **2.2.4** | **Calculate the value of the closing stock by using the FIFO method.** |  |  |
|  | 380🗸 x R675 🗸 = R256 500🗸 |  |  |
|  | 40🗸 x R640🗸 = R25 600🗸 |  |  |
|  | = R282 100☑ |  |  |
|  | Operation one part correct |  | **7** |
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|  **QUESTION 3** |
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|  **3.1** | **CONCEPTS** |  |
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| **3.1.1** | First in first out | ✓ |
| **3.1.2** | Perpetual inventory system | ✓ |
| **3.1.3** | Specific identification method | ✓ |
| **3.1.4** | Periodic system / Weighted-average method.  | ✓ |

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|  **3.2.1** | **Calculate the value of the stock on hand on 30 June 2019 using the First in first out method (FIFO).** |  |
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|  8✓ x  | R 4 400✓ | = R 35 200 |  |  |
| 190✓ x | R 4 600✓ | = R 874 000 |  |  |
|  |  | R 909 200 | 🗹 | One part correct |
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|  **3.2.2** | **The owner is concerned about the management of stock with regard to stock levels and stock control.** |  |
|  | * **Provide a calculation to support his concern on stock levels. Take into account that the stock holding period for 2018 was 75 days.**
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|  |  614 600 ½ ✓ (320 000✓ + 909 200🗹) x 365✓ 2 040 500 ✓109,9 / 110 days 🗹 One part correct |  |

The stock holding period increased from 75 days to 110 days. ✓✓ |

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|  | * **Provide a calculation to support his concern on stock control.**

= 80 ✓ + 640 ✓ – 5 ✓ – 510 ✓ = 205 – 198 ✓ = 7 7 bicycles are missing 🗹 One part correct |

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| 3**.3.1** | **Identify ONE different problem in relation to each branch. Quote relevant figures to support your answer. In each case, offer Zanele advice on how to solve the problem.** |

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| **BRANCH** | **Problem** 🗸 🗸 🗸**Figures** 🗸 🗸 🗸 | **Advice** 🗸 🗸 🗸 |
| **KENI MALL** | Missing cash, R21 000 (24 cash sales = R100 800, but only R79 800 deposited) | Regular internal audit for sales and deposits / separation of duties  |
| **HAZY MALL** | Returns too high, 12 computers. | Purchase quality computers / make sure sales assistant knows product specifications. |
| Only worked 73% of normal time (117/160) and choose to cash in on the overtime 93% (52 hours) | Time sheet for normal timeSet targets/ minimise overtime. |
| **TONGA MALL** | Very low sales volume, 42% (21/50) computers. | Provide Han with sales assistant/ set sales targets |

**QUESTION 4**

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| **4.1** | **Explain the difference between the specific identification method and****weighted average method of valuing stock.** |  |
|  | **Specific identification method** – Each item is assigned a specific cost –the original purchase price – recorded in a register (or computer data base). Retrieved when item is sold.  |
|  | **Weighted average method –** The average price is calculated taking into account opening stock, purchases, returns and carriage on purchase, divided by the total number of units in relation to the above. Therefore, final closing stock will be calculated on the average cost of the goods.  |
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| **4.2** | **Provide a calculation to show the number of cooler boxes missing.** |  |
|  | 3 900  – (520 + 4 300 – 850 - 20) = 50 **50 cooler boxes were missing.** |
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| **4.3** | **Calculate the following in respect of cooler boxes:** |  |
|  | **The value of the closing stock of cooler boxes.**850  x R67  = R56 950  |
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|  | **Cost of sales of cooler boxes.**290 400(31 200  + 291 400 – 1 000 ) – 56 950  see closing stock above= R264 650  |
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|  | **Gross profit on cooler boxes.**387 000  – 264 650 = R122 350  |
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| **4.4.1** | **Calculate the Stock Holding Period in days. Use Closing Stock in your****calculation.** |  |
| 56 950  see closing stock in 5.3 X 365  264 650  see COS in 5.3 1= 78,5 days  |
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| **4.4.2** | **Comment on your findings in response to the manager’s feelings.** |  |
| Stock holding period decreased / improved  from 125 days to 78,5 days  or Stock Turnover rate increased / improved  from 2.9 to 5.7 times One mark for incomplete answerStock is selling faster *Any other suitable answer can be accepted* |
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| **4.5** | **Calculate the value of the closing stock of tents.** |  |
| 14 x R1 400 = R 19 600 7 x R1 680 = R 11 760 7 x R1 540 = R 10 780 R 42 140  |
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| **4.6** | **If the mark-up percentage is 25% on cost price, calculate the total sales****of tents for the period.** |
| 14 x 1 260 x 1,25 = R 22 050  28 x 1 400 x 1,25 = R 49 000  28 x 1 680 x 1,25 = R 58 800  35 x 1 540 x 1,25 = R 67 375  R197 225  operation, one part correct)OR: (17 640 + 39 200  + 47 040  + 53 900 ) x  = R197 225  (One part correct) |

**4.7**

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| **4.7.1** | **Identify TWO differences between the perpetual stock system and the periodic stock system.****Any valid difference with comparison**🗸🗸 🗸🗸 **Incomplete / one system only explanation: 1 marks**  **Expected responses:**  |  |  |
|  | **perpetual stock system** | **periodic stock system** |  |  |
|  |  |  |  |  |
|  | Stock on hand is available at all times, electronically. | Stock on hand is available through physical stock-take. |  |  |
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|  | Cost of sales is available at the point of sales | Cost of sales is calculated and this is done usually at the end of the financial year. |  |  |
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|  | Stock purchased is recorded as an  | Stock purchased is recorded as an  |  |  |
|  |  asset. | expense. |  | **4** |
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|  | Accept any relevant answers |  |  |  |

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| **4.7.2** | **Calculate the following:** |  |  |
|  | **Customs duty paid per watch** |  |  |
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|  | 18 000/120 = 150 🗸🗸 two or nothing **OR** 12 150/81 = 150**OR**  40 500 270(18 000 + 12 150 + 10 350) ÷ (120 + 81 + 69) = R150 |  |  |
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|  | **The value of closing stock using FIFO method** |  |  |
|  |  |  |  |
|  | 69 x 37 150 = 2 563 350🗸🗸 two or nothing  |  |  |
|  |  9 x 35 150 = 316 350🗸🗸 two or nothing |  |  |
|  | 78 x 50 = 3 900🗸🗸 two or nothing |  |  |
|  |  2 883 600☑ one part correct |  |  |
|  |  |  |  |
|  | **OR** |  |  |
|  |  |  |  |
|  | 69 x 37 200 = 2 566 800 three or nothing  |  |  |
|  |  9 x 35 200 = 316 800 three or nothing |  |  |
|  |  2 883 600 method mark one part correct |  | **7** |
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|  | **Cost of sales** |  |  |
|  |  see closing stock above |  |  |
|  | 3 000 000🗸+ 9 388 500🗸+ 13 500🗸🗸– 175 000🗸🗸– 2 883 600☑ = 9 343 400 ☑ one part correct |  |  |
|  | Accept other format |  |  |
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|  | **Calculate the Stock holding period in days** |  |  |
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|  |  2 941 800 three marks see above½🗸 (3 000 000🗸 + 2 883 600☑) X 365 9343 400☑see above 12 085 390 X 3657 008 720 1114.9 days☑ operation on part correct accept 115 days |  |  |
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| **4.7.3** | **Comment on stock holding period ( 2017 was 158 days)** |  |  |
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|  | Stock holding period improved from 158 days to 115 days by 43 days🗸🗸 |  |  |
|  | Too much cash tied up in stock.  |  | **2** |
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| **4.8** | **Comment on the price adjustment policy. Is it a good idea to allow the managers to adjust prices? Provide figures to support your answer**.YES/NO🗸 Figure🗸 Comment🗸 |  |  |
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|  | Mfusi decreased his prices by 10% and his sales are the highest. Shabalala increased his prices with 5% and he had the lowest sales.  |  |  |
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|  | **Identify one problem relating to each branch. Provide figures to support your answer. In each case provide a possible solution.** |  |  |
|  |  | **Identify a problem**🗸🗸 🗸🗸 🗸🗸 | **Possible solution**🗸 🗸 🗸 |  |  |
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|  | **SHOP A** | 120 days’ stock Payment to creditors is too soon on 21 days compared to debtors collection period. | Keep less stockPay creditors after collection from debtors |  |  |
|  | **SHOP B** | Profit mark-up is 10% lowerNo credit salesPayment to creditors is in 60 daysToo many workers | Give less discountSell on creditPay creditors laterGet rid of some workers |  |  |
|  | **SHOP C** | Sales are the lowest atR247 500Too much credit granted to customersBad debts very highBad debts are 10% of credit  | Prices must be higherImprove credit controlImprove collection from debtors  |  |  |
|  |
|  | sales that is too high  |  |  |  |
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**QUESTION 5**

* 1. **INVENTORY VALUATION 5.1.1**

**Explain the FIFO valuation method.**

Any valid explanation, e.g. Part-marks for incomplete explanation

It is assumed that the first items bought are the first items sold. **OR**

Stock on hand is valued at the latest cost prices.

**Explain the specific identification valuation method.**Any valid explanation, e.g. Part-marks for incomplete explanation

Each item of stock is valued at its original cost to the business. 

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**5.1.2**

**Calculate the cost price per laptop on hand on 1 October 2018.**

R413 000/118 = R3 500 No part marks

**2**

* + 1. **Calculate the value of the closing stock on 30 September 2019.**

**PREFERRED METHOD**

202 500 three marks 502 200 four marks

* + - *       One part correct

[3 750 x (410 – 356)] + [4 650 x (630 – 20 – 502)] = R704 700

54 two marks 108 three marks

610 two marks

128 two marks

**ALTERNATIVE METHOD WITH TOTALS**

one mark two marks one mark one mark two marks one mark & one method mark

(1 537 500 – 1 335 000) + (2 929 500 – 93 000 – 2 334 300) = 704 700

202 500 502 200

three marks four marks

**ALTERNATIVE METHOD USING COST OF SALES**

**Candidates must know that opening stock has all been sold to get 3 marks on net purchases:**

Net purchases – Cost of Sales = Closing stock

1 335 000 two marks 2 334 300 two marks

+ 4 374 000 – [(356 x R3 750) + (502 x R4 650)] = R704 700

one or three marks one mark one mark one mark one mark one mark & one method mark

-403 000 & +403 000 = 0 **9**

* 1. **MANAGEMENT OF INVENTORIES 5.2.1**

|  |  |
| --- | --- |
| **What decision did Kofie take regarding the selling price of the desks? Provide figures.**Decision  Figures * He increased the mark-up from 60% to 80%.
* He increased the selling price from R1 920 to R2 520 / by R600 / by 31%.
 | **2** |
| **How has this decision affected the business? State TWO points. Provide figures.**Any two valid points  Figure * Gross profit increased from R259 200 to R336 000 / by R76 800 / by 29,6%.
* Stock turnover rate decreased from 7,2 to 6,0 times.
* Orders of desks decreased to 300 units / by 70 units / by 19%.
* Sales of desks decreased to 300 units / by 65 units / by 18%.
 | **4** |

**5.2.2**

**Was it a good idea for Kofie to change to a cheaper supplier of chairs? YES/NO:** No

**Explain TWO points. Provide figures.**

Any two valid points  Figure 

* The gross profit decreased from R148 920 to R95 200 / by R53 720 / by 36%.
* The returns increased from 0 to 90 units / the customers are not satisfied with the quality of the product / Resulted in lower net sales 680 compared to 730.
* The cheaper price of R490 did not affect the stock turnover rate which remained constant at 4,0 / chairs did not appear to be popular with customers.

**5**

**5.2.3**

**Based on the information given, provide TWO separate suggestions to Kofie to improve the profit on printers in 2020.**

One valid point for pricing Figure  One valid point for orders Figure 

**Suggestion 1 (with figures):**Kofie should increase the price; Any figure between R975 and R1 200 **OR**

* Kofie should increase MU%; Figures: Any % between 25% and 70%.

**Suggestion 2 (with figures):**

* Kofie must plan purchase of printers / must follow up on orders to meet the demand of 925 units (i.e. 200 more than current sales) **OR**
* Kofie must maintain / improve stock turnover rate of 11,8 times

**Responses for one mark only:**Find a cheaper supplier / Request deposits from customers / Payment in advance / Follow up on orders from customers / Negotiate a trade discount on purchases.

**4**

**QUESTION 6**

|  |  |  |
| --- | --- | --- |
|  **6.1** | **Explain the difference between the specific identification method and****weighted average method of valuing stock.** |  |
|  | **Specific identification method** – Each item is assigned a specific cost – the original purchase price recorded in a register– this data base is retrieved when item is sold. ✓ |
|  | **Weighted average method** **–** The average price is calculated taking into account opening stock, purchases, returns and carriage on purchase, divided by the total number of units in relation to the above. **-** Therefore, final closing stock will be calculated on the average cost of the goods.✓ |
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| **2** |
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| --- | --- | --- |
|  **6.2** | **Provide a calculation to show the number of cooler boxes missing.** |  |
|  | 3 900✓– (520 + 4 300 – 850 - 20) ✓✓= 50**50 cooler boxes were missing.** |
|  |  |
| **4** |
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| --- | --- | --- |
|  **6.3** | **Calculate the following in respect of cooler boxes:** |  |
|  | **The value of the closing stock of cooler boxes.**850✓x R67✓= R56 950 |
|  |  |
| **3** |
|  |
|  | **Cost of sales of cooler boxes.**290 400(31 200✓+ 291 400✓– 1 000✓) – 56 950✓see closing stock above= R264 650 |
|  |  |
| **5** |
|  |
|  | **Gross profit on cooler boxes.**387 000✓– 264 650 ✓ =R122 350 |
|  |  |
| **3** |
|  |
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| --- | --- | --- |
|  **6.4.1** | **Calculate the Stock Holding Period in days. Use Closing Stock in your****calculation.** |  |
| 56 950  see closing stock in 6.3 X 365✓ 264 650 see COS in 6.3 1= 78,5 days✓ |
|  |  |
| **4** |
|  |

|  |  |  |
| --- | --- | --- |
|  **6.4.2** | **Comment on your findings in response to the manager’s feelings.** |  |
| Stock holding period decreased / improved✓ from 125 days to 78,5 days✓ or Stock Turnover rate increased / improved✓ from 6.9 to 5.7 times✓One mark for incomplete answerStock is selling faster ✓*Any other suitable answer can be accepted* |
|  |  |
| **3** |
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| --- | --- | --- |
|  **6.5** | **Calculate the value of the closing stock of tents.** |  |
| 14 x R1 400 = R 19 600✓7 x R1 680 = R 11 760✓7 x R1 540 = R 10 780 ✓R 42 140 |
|  |  |
| **4** |
|  |

|  |  |
| --- | --- |
|  **6.6****6** | **If the mark-up percentage is 25% on cost price, calculate the total sales****of tents for the period.** |
| 14 x 1 260 x 1,25✓ = R22 050✓28 x 1 400 x 1,25 = R49 000✓28 x 1 680 x 1,25 = R58 800✓35 x 1 540 x 1,25 = R67 375✓ R197 225☑ (operation, one part correct)OR: (17 640✓ + 39 200✓ + 47 040✓ + 53 900✓) x 1,25✓= R197 225☑ (One part correct) |